

Market Analysis & Retail Sales Shift Projections

PROPOSED EMPORIA PAVILIONS
By Emporia Land Development, LLC
Emporia, Kansas

Prepared for the City of Emporia

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May 2014



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1.0 EXECUTIVE SUMMARY

The real estate development firm of Emporia Land Development, LLC has proposed the construction of a shopping center that would incorporate a total 266,640 square feet of retail and related space on the northwest side of Emporia, Kansas, at Industrial Road and West 24th Avenue just north of Interstate 35. The anchors of the project would be a large home improvement store and supermarket. The City of Emporia requested an independent study of this proposed project focused on a market study to determine the current performance of Emporia in the regional retail market, gauge the anticipated impact of new businesses created by the Project on existing businesses of similar types, and estimate the projects effect on the City's net retailers' sales tax revenues, as received from the proposed new businesses.

The site is well located about 0.3 mile north of the Industrial Road interchange with Interstate 35. This is the most developed interchange in Emporia with a Walmart and will benefit from the existing traffic in the area. However, there are some concerns about the site from a retail perspective. The site lacks visibility from the interstate, and access to the site is largely limited to Industrial Road which is already lined with uses similar to those proposed for the development's out-lot parcels. The large anchors would not be significantly impacted by these limitations. Existing retail development near the interchange appears to be under performing with noticeable vacancies. The new development should improve traffic to the area, and could shore up the existing vacant retail spaces.

Emporia serves as the retail center for surrounding communities, not only within Lyon County, but also neighboring counties on all sides. One measure of local competitiveness is the "Pull Factor" measured by Kansas State University and the Kansas Department of Revenue. Pull factor values greater than 1.00 indicate that local businesses are pulling in trade from beyond their home city border. A pull factor value less than 1.00 indicates more trade is being lost than pulled in. Emporia currently has a pull factor of 1.06, which indicates that the city is capturing sales from surrounding cities. But, it lags well behind other First Class cities in Kansas with an average Pull Factor of 1.17. Furthermore, the city's Pull Factor has been decreasing in recent years, suggesting the local retail environment is becoming less competitive. Retail options in the city are generally older and less attractive than those in nearby larger cities, so local shoppers and residents of the larger trade areas are increasingly willing to travel to find a more desirable shopping experience. Adding new and larger retail stores such as those planned for Emporia Pavilions should attract (and retain) more shoppers to the city.

We have utilized drive-time, competitive, and gravity analysis to determine which shoppers in the surrounding rural areas are mostly likely to travel to Emporia on a regular basis. Our trade area generally encompasses communities located within a 35 minute drive of Emporia. We estimate about half of the support for the project will come from within Emporia, with the other half coming from the surrounding rural communities in the larger trade area.

Emporia and the surrounding trade area are located in a low income portion of the state. Median household incomes in Emporia are about \$15,000 below the state median, and projected income growth will lag behind that of the state. Recent and projected population growth also lags well behind the state with projected declines in population over the next five years. Thus, strong demographics are not a driving factor for a retailer seeking to enter

the market. And, new excess demand in Emporia and the trade area will not be available to support the new business. Thus, the opportunity for new retailers is to take advantage of the aging retail infrastructure to introduce more competitive offerings and capture sales from inferior competitors.

Based on industry data and our review of the project, site and local demographics we have estimated overall sales for the project of \$256 per square foot, or \$68.3 million. About 91 percent of these sales would be subject to local taxes, for an annual total of \$62.3 million in taxable sales. The two anchor stores will account for approximately 86 percent of total sales—39 percent in the home improvement category and 47 percent in the grocery category. The total estimated sales for Emporia Pavilions would increase the total retail supply of the city by about 19 percent.

Examining retail gaps in associated spending categories reveals only minor opportunities to capitalize on under-supplied retail sectors. The gap in home improvement categories would only support a third of the proposed store. Emporia has a large surplus of grocery supply that serves surrounding communities, and the supply is remarkably well balanced within the combined trade area. Thus, there is no room for additional supply in the market without shifting sales from existing stores in the city. Similarly, gasoline has a large surplus of supply in both Emporia and the larger trade area. Other smaller uses, such as drive-thru and sit-down restaurants, small shops and services, could likely be supported by existing gaps in the market.

If the proposed retail center was fully supported by net new or recaptured sales, the city's pull factor would increase sharply from 1.06 to 1.25. Such a dramatic increase in pull factor has not been seen in other cities in Kansas. Similar cities in Kansas and Missouri with new home improvement stores opening in the past five years have not seen significant changes in Pull Factor or retail sales compared baseline sales established at the state level. In fact, the growth retail sales in each city after the new store opened lagged behind the cities' pre-recession growth, post-recession growth, and the state's growth over the same period.

Nevertheless, local officials in these cities do view the entry of these new large home improvement stores positively. They provide a new more attractive and convenient option for local shoppers. Cities with existing Menards, Lowes or Home Depot stores have not seen any closures or visible reductions in foot traffic. However, in some cases local or regional competitors have closed or seen noticeable reductions in traffic. For Emporia, these additions would help improve the retail environment, and provide shopping options that are desired by shoppers in the city and surrounding communities.

We conclude that the development would generate \$22.7 million in net new and recaptured sales to the city, but at the same time transfer \$45.6 million in sales from existing businesses within Emporia. The transfer of sales is due in large part to the proposed supermarket which would significantly increase the supply of groceries in the trade area which is already very well balanced. Of the net new and recaptured sales, about 97 percent, or \$22 million will be subject to local sales taxes. The \$22.7 million of net new and recaptured sales would increase Emporia's Pull Factor from 1.06 to 1.10. This increase is reasonable and consistent with the experience of other cities with new large retail developments. It would also reverse the recent decreases in Pull Factor, and increase its ranking from 17 to 13 among Kansas' First Class cities—Emporia's highest ranking since 2003.

The transferred sales support roughly 178,000 square feet of retail space. By comparison the closest competitors in the home improvement and grocery sectors occupy about 145,000 square feet of space. Similar cities in Missouri and Kansas have seen a few closures, but strong competitors remain, some other stores have upgraded to remain competitive, and some vacant stores have been filled with attractive uses.

Emporia is in need of new and more attractive retail development to remain competitive in the region, but we anticipate that some local business will be directly impacted.

2.0 PROJECT OVERVIEW

The real estate development firm of Emporia Land Development, LLC has proposed the construction of a shopping center that would incorporate a total 266,640 square feet of retail and related space on the northwest side of Emporia, Kansas, at Industrial Road and West 24th Avenue just north of Interstate 35. The City of Emporia has requested an independent market study of this proposed project focused on the following subject matters:

- The population areas (trade areas) that the Project will draw from;
- A demographic overview of Emporia and the trade areas,
- Assess the current performance of Emporia in the regional retail market using “pull factor” data from the Kansas Department of Revenue and retail gap analysis,
- Identify existing businesses in the City of similar types that will compete with new business created by the Project,
- Estimate the anticipated impact of new businesses created by the Project on existing businesses of similar types, and
- Estimate anticipated effect on the City’s net retailers’ sales tax revenues, as received from the proposed new businesses in the District and from existing businesses of similar types located in the City.

Emporia is located in the east-central portion of Kansas and is generally located about an hour’s drive from larger cities such as Topeka (50 miles northeast), Lawrence (60 miles northeast), Wichita (70 miles southwest), and Kansas City suburbs (80 mile northeast). The following map illustrates Emporia and rough driving times to these communities.



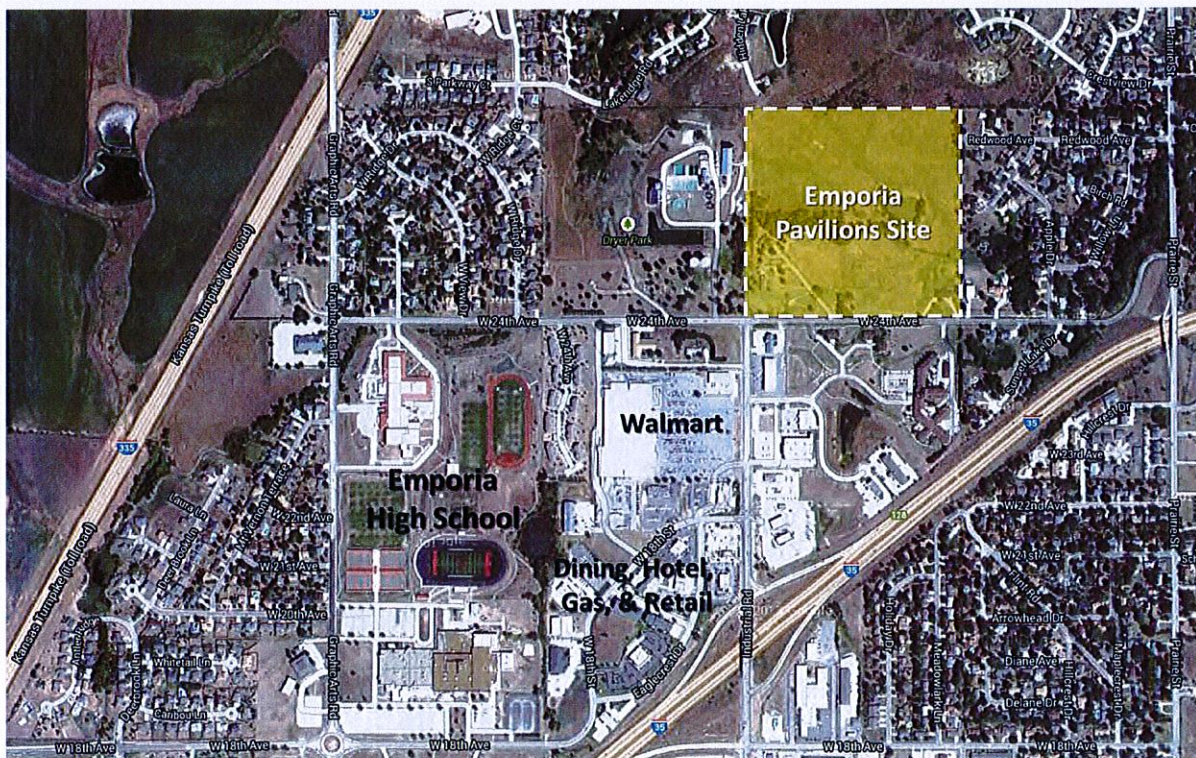
Map 1: Location of Emporia & Driving Distances to Larger Cities

With a population of about 25,000 Emporia is significantly smaller than both Topeka (125,000 pop.) and Wichita (385,000 pop.). These large markets offer a wider variety of shopping and dining and Emporia residents are accustomed to driving long distances to take advantage of these options. That said, Emporia is the commercial center of rural Lyon County and surrounding counties, most of which contain less than 10,000 residents. These counties have very limited retail and dining options, and their residents will regularly travel to Emporia.

The following two aerial maps show a wide overview of Emporia and the surrounding countryside. The Emporia Pavilions site is indicated.



Map 2: Emporia Location and Surrounding Countryside



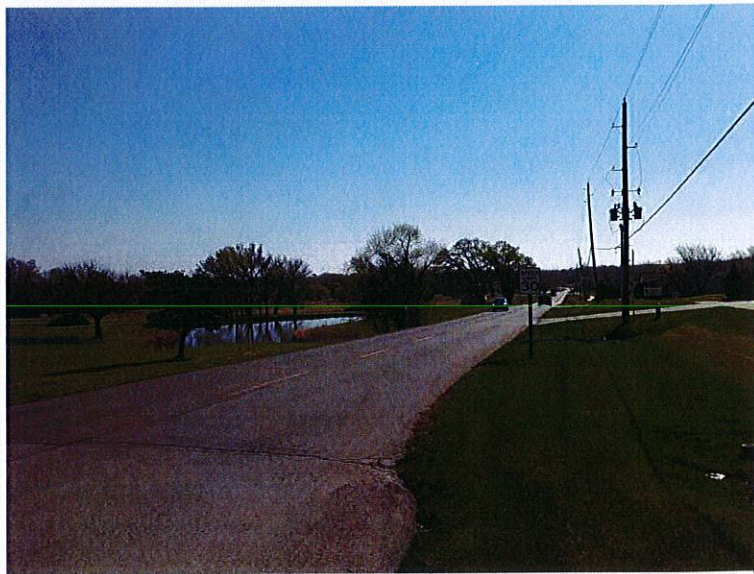
Map 3: Proposed Retail Location in Emporia

The project would be anchored by a 162,340 square foot home improvement store, and an 80,000 square foot supermarket. Another 24,300 square feet would be reserved for various other uses including a gas/convenience store, drive-thru and sit-down restaurants, and in-line retail space. Construction would likely begin in 2014 with stores being phased in over a four to five year period.

As described further in this report, Development Strategies would expect the entire retail project to be able to generate around \$68.3 million in annual sales, in 2014 dollars, when fully operational. This equates to sales of about \$256 per square foot. The report describes the derivation of this sales potential, conditions for success, and potential impacts on the rest of the retail business climate in Emporia.

2.1 ANALYSIS OF THE SUBJECT SITE

The proposed site of Emporia Pavilions is roughly square in shape and contains 39.18 acres of land which is largely undeveloped with the exception of a few homes on large lots. Adjacent uses are residential to the north, south, and east, with a water treatment plant to the west. A concentration of retail, anchored by Walmart, is located just southwest of the site along Industrial Road. The site is well located about 0.3 mile north of the Industrial Road interchange with Interstate 35. This is the most developed interchange in



View of the proposed development site (left) looking east along 24th Street

Emporia with the Walmart and several restaurants and hotels located north of the interstate and FlintHills Mall and other adjacent retail located south of the interstate. Development at the site will benefit from the existing traffic in the area, and a cluster of big box uses in a small area can catalyze further development.

However, there are some concerns about the site from a retail perspective. First, the site lacks visibility from the interstate. Our inspection of the site suggests that none of the uses would be visible from drivers travelling east or west along the interstate due to location, topography, and surrounding uses. This may be a minor issue for the large anchor stores, but given a choice of development sites, interstate visibility would be preferable. Other than Industrial Road, access to the site is limited. West 24th Avenue, which runs along the southern edge of the site is a small residential road which terminates about a half mile east and west of the site, so through traffic is very limited. We understand that 24th Avenue would be upgraded as it runs adjacent to the site to accommodate increased traffic to the site, but the limitations of the street beyond the site will likely remain. These limitations will mainly impact the non-anchor users, since competing uses are more conveniently located near the interchanges.

The large home improvement store and supermarket anchors would generate a significant amount of traffic to the site, but other uses on the site would likely be more dependent on access and visibility, which the site lacks. Similar options line Industrial Road immediately to the south with superior locations.

City planning and development officials have indicated that there are development sites available proximate to the Interstate 35 interchange with the Kansas Turnpike and US Highway 50 (Sixth Street) that would be appropriate for big box retail. This area has the advantage of accessibility and visibility from major highways, but lacks the adjacency to a major concentration of retail with Walmart as an anchor.

2.2 COMPETITIVE RETAIL ENVIRONMENT

In the following section we examine the competitive retail environment in Emporia. The competitive market for each anchor is examined along with the competitive environment for additional uses planned for the out-lot and in-line spaces proposed. Generally, Emporia serves as the retail center for surrounding communities, not only within Lyon County, but also neighboring counties on all sides. Anecdotally, this can be seen on a daily basis by noting license plates¹ in the parking lots of Walmart and Bluestem Farm and Ranch Supply. Even on a weekday, about half of the vehicles had license plates from outside of Lyon County, some from as far away as three hours. It is not unusual for shoppers in these rural communities to travel 30 minutes to an hour to shop and dine. Thus, Emporia is well positioned (about an hour away from four much larger urban areas) to capture this demand. Conversely, residents in these surrounding communities are less hesitant to travel long distances to even larger communities that offer a wider variety of goods and services. Even Emporia residents will regularly travel to larger cities to take advantage of these opportunities.

A quantitative measure of the city and county's ability to attract and retain its shoppers is known as a "retail pull factor." Kansas State University tracks pull factors for the state's cities and counties very closely, and has an excellent time series database for tracking pull factor changes. The data is available from the Kansas Department of Revenue.

As defined by KSU,² the pull factor is a location quotient of retail trade that measures the relative strength of the retail business community. The pull factor is computed by dividing the per capita sales tax³ of a city by the statewide per capita sales tax. A pull factor of 1.00 is a "perfect balance of trade." The purchases of city residents who shop elsewhere are offset by the purchases of out-of-city customers. Pull factor values greater than 1.00 indicate that local businesses are pulling in trade from beyond their home city border. Thus, the balance of trade is

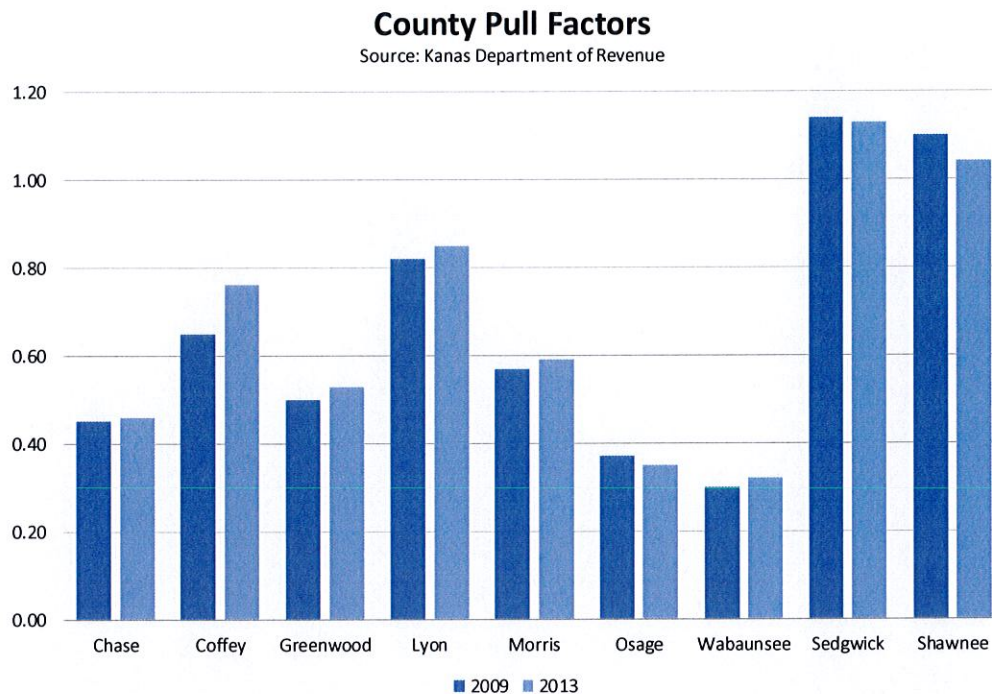
¹ Kansas includes a county code on license plates.

² Kansas Department of Revenue, Office of Policy and Research. *An Annual Report of Trade Pull Factors and Trade Area Captures: Annual Report for Fiscal Year 2013*. Issued December 2013.

³ Note that the basis for pull factors is the state and local sales tax, while the ratios derived from the ESRI data rely on estimates of actual buying power and retail sales.

favorable. A pull factor value less than 1.00 indicates more trade is being lost than pulled in. This is an unfavorable balance of trade.

The following chart compares the Pull Factor of Lyon County to those of bordering counties, as well as those of two nearby counties with significantly larger urban areas (Wichita in Sedgwick County and Topeka in Shawnee County). It also shows the change in Pull Factor for each county over the past five years.



While Lyon County has a significantly higher Pull Factor compared to the surrounding counties, its factor of 0.85 in 2013 indicates that it still loses sales to other counties. A good portion of these sales are likely lost to Sedgwick and Shawnee given their size and proximity to Lyon and adjacent counties, and their Pull Factors of greater than 1.00. Interestingly, Lyon and all but one of the surrounding rural counties have seen small improvements in their Pull Factors of the past five years, while the two larger counties have seen slight declines. This suggests the retail environment in these more rural counties is improving and/or that shoppers are more willing to shop closer to home.

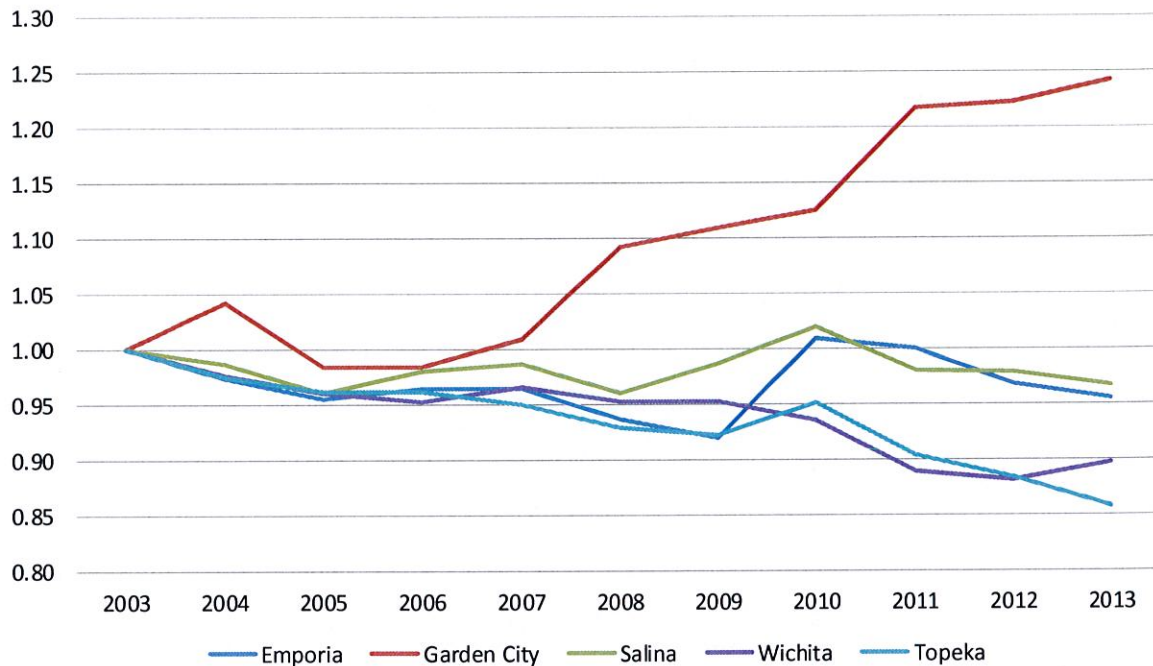
However, the story is somewhat different if we look specifically at Emporia. Emporia currently has a pull factor of 1.06, which indicates that the city is capturing sales from surrounding communities.⁴ But, it lags well behind the average of other First Class cities in Kansas with an average pull factor of 1.17.

⁴ If Emporia is excluded from the outlying areas of Lyon County, the remainder of the county has a pull factor of only 0.28. This indicates households living in Lyon County but outside of Emporia are doing a large majority of their shopping in Emporia or other cities outside of the county.

From 2003 to 2013, Emporia's Pull Factor rank among Kansas's first class cities has dropped from 13 to 17 (out of 25). At the same time other small cities such as Garden City and Salina have seen their ranks increase (Garden City 9 to 2, Salina 5 to 4). During this time the nearby larger cities of Wichita (11 to 7) and Topeka (3 to 4) have also seen their ranks drop. The following graph shows the changes in Pull Factors among these five cities indexed to 2003.

Indexed Pull Factor, 2003-2013

Source: Kansas Department of Revenue



Emporia and Salina see slight decreases over the period, while Garden City sees a dramatic increase, and the larger cities see decreases of over 10 percent. Even Lenexa, the top-ranked city by Pull Factor, has seen the factor decrease from 1.96 in 2003 to 1.59 in 2013, a 19 percent decrease. Similar to the county level changes, this seems to indicate that smaller communities are becoming more competitive or are more likely to retain local shoppers. As a smaller rural city, this provides both a risk and opportunity for Emporia.

2.3 SUMMARY OF LOCAL COMPETITION

Our search of business listings for Emporia has identified 153 businesses by NAICS code within retail and restaurant categories. Of these about 35 fall within home improvement categories, eight were classified as grocery stores, 110 businesses fall within a variety of typical retail categories, and 78 were restaurants. During our visit to Emporia we identified five businesses that would compete most directly with a new nationally branded home improvement store at Emporia Pavilions and six that would compete with a new supermarket. The location of these stores is shown on the following map in relation to the proposed development site.



Proposed Emporia Pavilions
Emporia, Kansas

- Proposed Site
Downtown Emporia
- Local Home Improvement Store
Grocery Store

These stores are summarized in the following table and each store described in more detail in the appendix of the report. We have estimated the store sizes based on aerial photographs and estimated sales based on published industry data.

Summary of Competitive Stores

<i>Competitive</i>					
<i>Name</i>	<i>Stores</i>	<i>Estimated Size</i>	<i>Est. Sales*</i>	<i>Average Size</i>	<i>Avg. Sales</i>
Home Improvement	5	224,000 SF	\$37,950,000	44,800 SF	\$7,590,000
Groceries	6	117,500 SF	\$40,750,000	19,583 SF	\$6,790,000

* Rough sales estimates based on published industry data

Home Improvement Stores

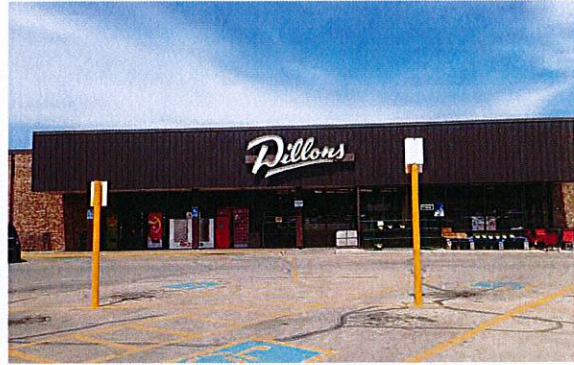
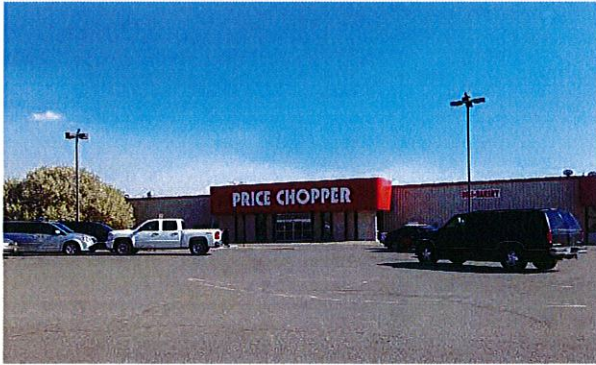
Currently, most home improvement needs are served within the city of Emporia, but not all are “under one roof”. The city does not have an existing big box store such as a Lowes or Home Depot. Our discussion with local officials indicated that many residents are willing to travel for this convenience, and the wider variety and lower prices offered by a new store such as Menards, Lowes, or Home Depot. Similarly, shoppers in outlying areas might choose to travel to Emporia with a new large home improvement store rather than larger cities with home improvement stores located further away. Nonetheless, there are local businesses that will compete directly or indirectly with the new store and business could be impacted negatively resulting in reduced sales or possible closure. Although in some other cities, similar stores have remained open.

Grocery Stores

Grocery stores within Emporia are generally over 20 years old and lack the features of a modern supermarket such as an integrated pharmacy, florist, wide variety of prepared foods, and large bakeries, meat, seafood, and deli sections. While many of the stores are conveniently located for local residents few are located conveniently to an interstate which could help attract shoppers from the surrounding rural areas. Grocery stores (especially older stores) operate on narrow margins and depend on high-volume sales to maintain profitability. Therefore these older stores may be more vulnerable to new competition in the market. We heard from several local officials that residents have expressed a desire for a more modern and attractive grocery option.

While Emporia is well served by a wide variety of grocery options throughout the city, it lacks a large modern supermarket that is typical of most large and medium sized cities in the Midwest. A large 80,000 square foot store would be consistent with many new supermarket models in similar cities. These stores offer wider aisles, more variety, larger delis, bakeries, meat and fish departments as well as a wide array of prepared foods.

Contrast the existing Emporia stores pictured below with a new Dillion's store in Andover, Kansas similar in size to the proposed supermarket.



A new modern supermarket would clearly improve the grocery shopping options of Emporia residents. However, an 80,000 square foot store would increase the estimated grocery square footage within the city by about 66 percent (based on our estimates of existing store sizes, not including Walmart). Such a significant addition to the local market will almost surely have an impact on other stores in the city. We would expect one or more grocery closures to occur eventually as a result of a new larger and very competitive entrant to the market.



Other Shopping and Dining

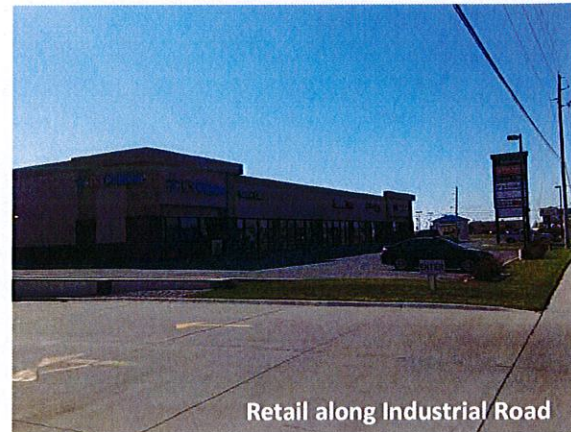
Other retail businesses are mainly clustered in three areas: along Sixth Street, along Commercial Street in Downtown, and along Industrial Road.

The Downtown cluster of stores is about 2.5 miles from the subject site. The uses are mainly independent stores, service businesses, and small offices. It benefits from its central location within the city and close proximity to Emporia State University. We would anticipate very little overlap between Downtown businesses and those likely to locate in the out-lots of Emporia Pavilions, and there will be limited if any competition from these smaller stores.



The Sixth Avenue commercial corridor includes mainly older independent and chain stores and restaurants, but there is no suburban-style shopping center along the corridor.

The most directly relevant retail competition is located on Industrial Road just north and south of the Interstate 35 interchange. This includes the cluster of development north of the interstate anchored by Walmart, and south of the interstate anchored by FlintHills Mall and Sutherlands.



Retail along Industrial Road

Likely out-lot uses on the Emporia Pavilions site would include a gas/convenience store, drive-thru restaurant, sit-down restaurants and strip center retail space. The location of the site and performance of surrounding retail centers does present some concerns in regard to these accessory uses. Early in the description of the site we noted that visibility and access to the site is limited. The vast majority of the shoppers will access the site by passing similar uses along Industrial Road that are more visible and conveniently located. Most notably a gas/convenience store would be at a significant disadvantage to the Phillips 66 Short Stop located directly at the interchange with visibility from the interstate. A Shell station with convenience store located just off of Industrial Avenue in a less convenient location has been closed for a couple of years with no new user. A variety of drive-thru restaurants are located on Industrial Road prior to arriving at the subject site, so it is not an advantageous location for this type of use. Sit-down restaurants may be another prospective use for the site, but we note Applebees has a more visible and convenient location at the interchange and a Cracker Barrel restaurant at the interchange closed, which is a rarity for the chain. The location has reopened as a Montana Mikes steakhouse. Finally, two small strip shopping centers have noticeable vacancies and appear to be about 80 percent occupied. Similar in-line retail space at the subject site would be at a disadvantage to these spaces with direct visibility and access along Industrial Road. The location on the northwest edge of the city also limits the number of households convenient to the property who would frequent the convenience businesses on the site.

The FlintHills Mall south of the interchange is 80 percent occupied. This is partially indicative of the overall demand for retail shopping within Emporia, but also speaks to the lack of competitiveness of the existing retail available to shoppers. The mall is clearly aged and not attractive, so local shoppers would prefer to shop at larger, newer, and more attractive options in cities such as Wichita, Topeka, Lawrence and the Kansas City suburbs.

The large home improvement store and supermarket anchors would generate a significant amount of traffic to the site, but it is likely that the accessory uses would be almost solely dependent on this traffic, rather than local and interstate generated demand. The addition of two major anchors to this area would likely improve the overall performance of this concentration of interstate retail and service, but the existing dynamics of the location are somewhat concerning.

3.0 TRADE AREA DEFINITION

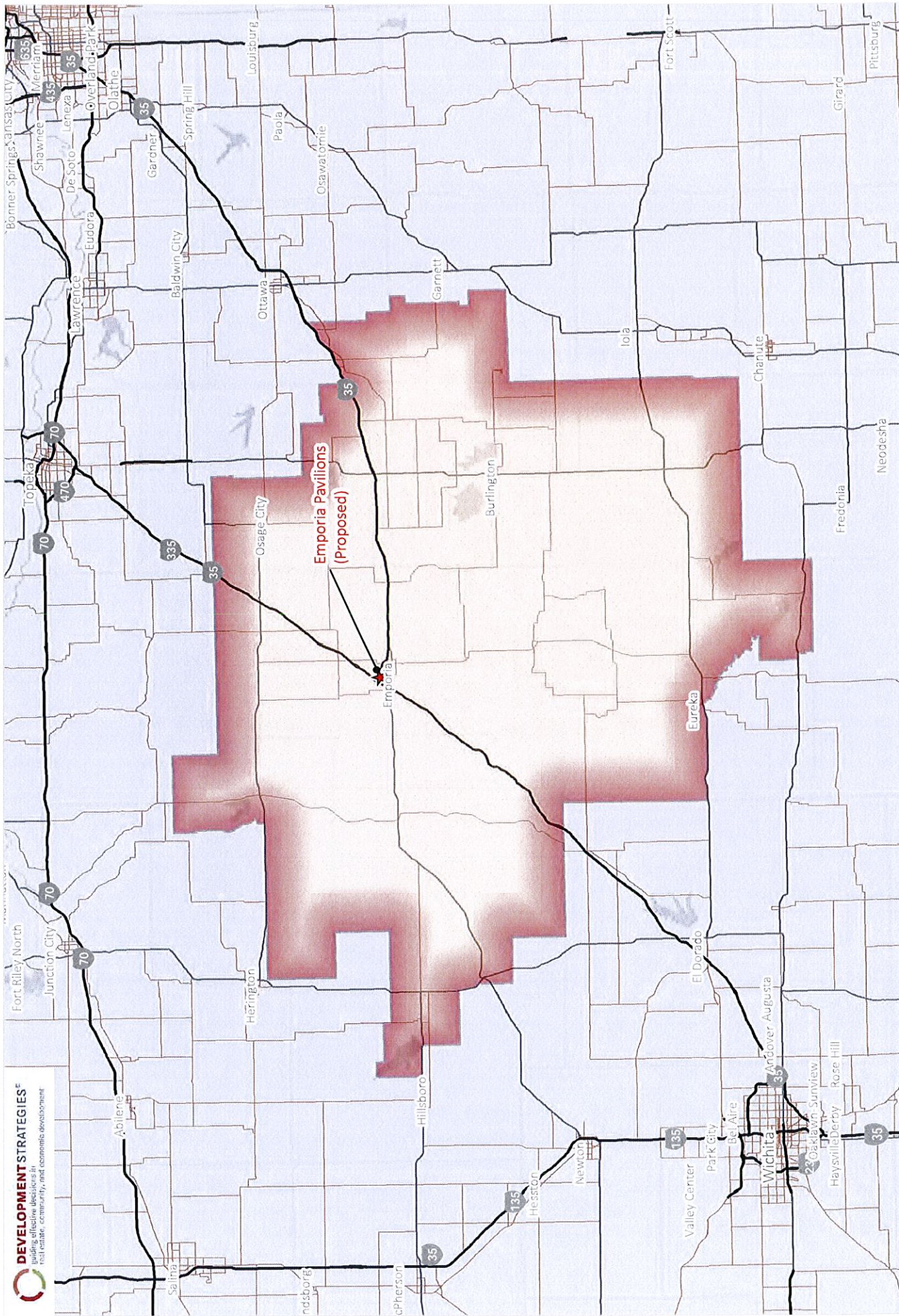
The primary trade area is briefly defined as the smallest geographic area that is typically expected to generate between 70 to 80 percent of the support for the proposed project. The primary trade area is separated from adjacent market areas by natural and manmade barriers such as rivers, highways, railroads, major arteries, or a marked difference in the socioeconomic makeup of the neighborhood or area. Typically, the largest retail anchor (in this case a home improvement store) will be used to determine the trade area of a shopping center. We would expect a new large supermarket to also be a significant draw to the shopping center. In this rural environment, the city itself would constitute the primary trade area with local residents largely located within a roughly 10 minute drive. We would expect most residents of Emporia would make regular trips to the stores of Emporia Pavilions, given their size, attractiveness, and uniqueness in the market.

A wider trade area has been determined using GIS analysis with data from ESRI, a commercial provider of demographic and economic data regularly used in the commercial real estate industry. We have utilized drive-time, competitive, and gravity analysis to determine which shoppers in the surrounding rural areas are mostly likely to travel to Emporia on a regular basis (though less frequently than residents of Emporia) to shop. Given, two equally attractive stores we would expect a shopper to choose the one most convenient (shorter drive-time) to them, thus defining the market area. In this case we have assumed the new home improvement store is built, drawing shoppers from surrounding communities. However, cities such as Topeka, Wichita, and suburban Kansas City have a wider variety of shopping options and would be viewed by most shoppers as more attractive. In this case, the some shoppers that live closer to Emporia would be willing to drive further to shop in a Menards, Lowes, or Home Depot in a larger city. These factors have been considered in determining the wider trade area shown in the map on the following page. While the city of Emporia makes up only a very small percentage of the land area, it accounts for roughly a third of the population and retail demand, yet about 60 percent of the retail supply.

In cooperation with the economics department of Emporia State University, Downtown Emporia has also developed a trade area map for Emporia. These two trade areas are similar, but ours is slightly larger, which could be due in part to the assumption of the new shopping center. Our trade area generally encompasses communities located within a 35 minute drive of Emporia.

Overall, we estimate about half of the support for the project will come from within Emporia, with the other half coming from the surrounding rural communities in the larger trade area. The typical market area for a large chain home improvement store is 30 to 50 miles.⁵ Therefore, for the purpose of analyzing the trade area buying power and opportunity gaps as well as estimating the sales potential of Emporia Pavilions retailers we apply data for the entire trade area.

⁵ Lowe's reports that its trade area can range from 30 to 50 miles. The SMA we chose (30 minute drive) is equivalent to approximately 25 miles.



★ Proposed Development



Estimated Trade Area



TRADE AREA

Proposed Emporia Pavilions
Emporia, Kansas

3.1 DEMOGRAPHIC OVERVIEW

Emporia is the largest city in Lyon County and, as such, serves as the economic focal point of the county. Of the 33,600 people living in Lyon County, about 74 percent live in the city of Emporia. The population in Emporia has been in decline since 2000 and is expected to decrease 2.7 percent between 2012 and 2017. The population in Lyon County decreased at a similar rate as Emporia between 2000 and 2012; these regional declines contrast with the state, which has experienced steady growth (7.4 percent) since 2000. The average household sizes in the study areas are projected to decline minimally between 2012 and 2017. Population projections for the study areas indicate regression in the near future. The following chart summarizes the population trends in Emporia, the Total Trade Area, Secondary Trade Area, Lyon County, and Kansas.

Demographic Trends

Description	Emporia	Total Trade Area	Secondary Trade Area	Lyon County	Kansas
Population					
2017 Projection	24,065	67,474	43,409	32,864	2,973,115
2012 Estimate	24,732	68,438	43,706	33,602	2,889,867
2010 Census	24,916	68,231	43,315	33,690	2,853,118
2000 Census	26,760	73,183	46,423	35,935	2,688,418
Growth 2012-2017	-2.7%	-1.4%	-0.7%	-2.2%	2.9%
Growth 2010-2012	-0.7%	0.3%	0.9%	-0.3%	1.3%
Growth 2000-2010	-6.9%	-6.8%	-6.7%	-6.2%	6.1%
Household Size					
2017 Projection	2.37	2.35	2.34	2.40	2.49
2012 Estimate	2.41	2.38	2.37	2.44	2.50
2010 Census	2.39	2.37	2.36	2.42	2.49
2000 Census	2.47	2.45	2.44	2.51	2.51
Growth 2012-2017	-1.7%	-1.3%	-1.1%	-1.6%	-0.4%
Growth 2010-2012	0.8%	0.4%	0.3%	0.8%	0.4%
Growth 2000-2010	-3.2%	-3.3%	-3.3%	-3.6%	-0.8%

© ESRI, 2014

Emporia's population is substantially younger than that of the state, with a *College Age* cohort twice as large as in the state overall. The age distributions of the other study areas are in line with the state overall, with median ages between 32.9 and 39.6 years. Most age cohorts in Emporia are projected to decline between 2010 and 2017, while the *Seniors* cohort is expected to see a growth rate of 24 percent. The following table summarizes the age distribution for Emporia, the trade areas, Lyon County, and Kansas.

Age Distribution Comparison - 2012

Age Cohort	Emporia	Total Trade Area	Secondary Trade Area	Lyon County	Kansas
Total population:	24,732	68,438	43,706	33,602	2,973,115
0 - 4 (Pre-school)	7%	6%	6%	7%	7%
5 - 17 (K-12)	16%	17%	17%	16%	18%
18 - 24 (College Age)	20%	11%	6%	16%	10%
25 - 34 (Early Workforce)	14%	11%	10%	13%	13%
35 - 49 (Family Years)	15%	17%	18%	16%	19%
50 - 64 (Empty Nesters)	16%	21%	23%	18%	19%
65 - 74 (Seniors)	6%	9%	11%	7%	7%
75+ (Elderly)	6%	8%	9%	6%	7%
Median Age	29.4	39.6	39.6	32.9	36.2

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Emporia's median household income is approximately 25 percent less than the median household income in the state. This disparity is expected to continue; however, all areas are projected to experience between 2.7 and 3.1 percent annual income growth through 2017. While the median household income in Emporia is \$35,640, the largest income groups in Emporia include those households earning less than \$15,000 and between \$50,000 and \$74,999.

Income Trend and Distribution Comparison

Description	Emporia	Total Trade Area	Secondary Trade Area	Lyon County	Kansas
Median Household Income					
2017 Projection	\$40,700	\$43,881	\$45,543	\$43,548	\$55,435
2012 Estimate	\$35,640	\$37,953	\$39,184	\$37,497	\$47,567
2000 Census	\$30,858	\$32,657	\$33,648	\$32,955	\$40,634
Annual Growth 2012-2017	2.7%	2.9%	3.1%	3.0%	3.1%
Annual Growth 2000-2012	1.2%	1.3%	1.3%	1.1%	1.3%
2012 Income Distribution					
Total households:	9,682	27,870	18,188	13,182	1,125,375
<\$15,000	20%	17%	16%	18%	13%
\$15,000 - \$24,999	16%	15%	15%	15%	12%
\$25,000 - \$34,999	13%	13%	13%	13%	11%
\$35,000 - \$49,999	17%	17%	17%	18%	16%
\$50,000 - \$74,999	18%	20%	20%	20%	20%
\$75,000 - \$99,999	9%	10%	10%	9%	11%
\$100,000 - \$149,999	5%	6%	7%	5%	11%
\$150,000 - \$199,999	1%	1%	1%	1%	3%
\$200,000 +	1%	1%	1%	1%	3%

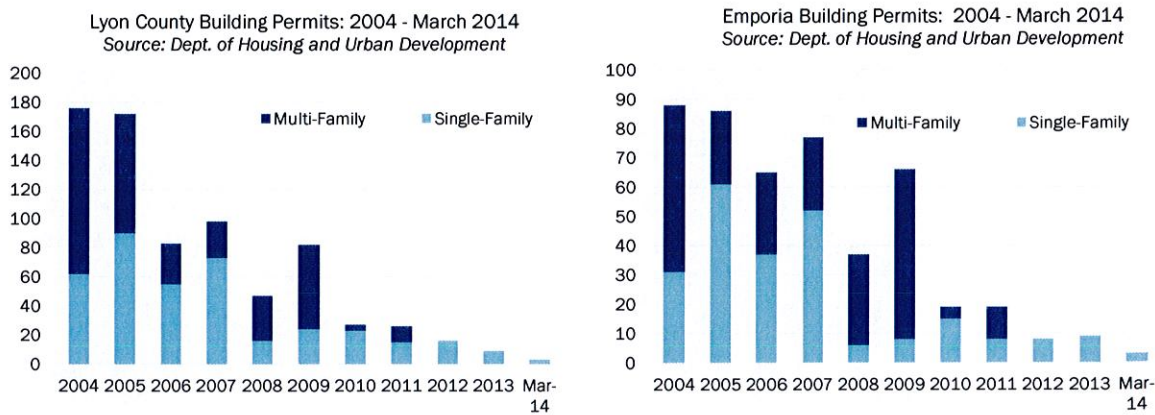
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Gross income is expected to increase by about \$134 million over the next five years at a rate of 1.9 percent annually, significantly slower than the increase at the state level. Looking specifically at the anchor stores proposed for Emporia Pavilions, demand for those products will increase by \$11.2 million.

3.2 BUILDING PERMITS

Since a home improvement store is proposed as a major anchor to Emporia Pavilions we also looked at building permit data as an indicator of future demand for the store. According to HUD data, Lyon County has had a roughly even proportion of single-family and multi-family permits issued during the past decade. Permitting activity in the county reached its peak in 2004, but has declined dramatically since then. The nine total permits issued in 2013 represent just five percent of the 176 permits issued in 2004. Of the 739 total permits issued in Lyon County since 2004, 477 (65 percent) have been issued in the city of Emporia.

The following graphs summarize building permits issued in Lyon County and Emporia over the last decade.



New retail developments and tenants are generally drawn to a market for one or more of three reasons:

- Opportunity to generate sales from strong growth and increasing sales in the trade area
- Generating sales from one or more underserved niches in the market
- Exploiting a competitive advantage with new, more attractive stores to capture sales from existing stores

Emporia and surrounding trade area is located in a low income portion of the state. Median household incomes in Emporia are about \$15,000 below the state median, and projected income growth will lag behind that of the state. Recent and projected population growth also lags well behind the state with projected declines in population over the next five years. Thus, strong demographics are not driving factor for a retailer seeking to enter the market.

The following analysis will indicate that while there are gaps in certain retail segments, none are large enough to support retail at the scale proposed for the stores at Emporia Pavilions.

The main reason for a retailer to enter the Emporia market is to take advantage of the aging retail infrastructure to introduce more competitive offerings in the market and pulling sales from inferior competitors. And, there is a strong desire from local shoppers for new and more attractive stores to offer a wider variety of products at lower costs. This will enhance the competitiveness of the local retail market and allow the city to retain residents spending and attract new spending from outside the city. At the same time there will be impacts to existing retailers in the market will need to be measured.

4.0 ESTIMATING SALES POTENTIAL AT THE PROPOSED PROJECT

The developer of the proposed project cannot reveal anticipated stores nor specific sales projections for the project. It is up to the market analyst, therefore, to make a reasoned and rational estimate of the likely sales to be generated by such a project based on the kinds and sizes of stores that are anticipated.

It is wise to remain conservative in such projections. Overstating the projections can lead to serious problems with economic development incentive programs and city budgeting if actual sales, and resulting sales taxes, fall far from the expectations. But it is also important not to be too conservative, especially in an analysis which seeks ultimately to define the potential “shift effects” from existing retailers to the new stores. If the projections are too low, existing businesses might not adjust their competitive positions sufficiently to withstand the shifts. If the projections are too high, existing businesses might over-react to potential losses in sales and thereby cause more damage—or even going out of business—than is necessary.

That said, the developers have provided financial information about the projected performance of the project, including sales, but these projections were not used in the development of our sales estimates. Rather, they were used after the fact to check for reasonable consistency between the two estimates. Our conclusion of annual sales generated by Emporia Pavilions is about seven percent higher than the developer’s.

To determine reasonable sales projections—all of which are made in constant 2014 dollar values at this time—the following methodology was employed:

1. Based on discussions with the developer, city officials, and an inspection of the types and sized of retail buildings proposed in the site plan, we have made reasonable assumptions about the types of retailers that will occupy the space. And, based on existing uses within Emporia and shopping centers in small to medium-sized Midwestern cities we have assigned a likely brand-name retailer for each use.
2. For each retailer and/or store type we referenced industry reports including *RetailSails 2013 Chain Store Productivity Report*, Nielson’s *Retail Tenant Directory: 2013*, and Plunkett’s *Retail Almanac, 2013*, as well as publically available corporate information and media reports to determine sales on a per square foot basis.
3. The sales from the data sources mentioned are typically national averages. We have made adjustments to our estimates based on the demographics and competitive environment in Emporia. Generally, these adjustments were minor since local demographics are below national averages, but the new stores should perform very well since the local retail market lacks similarly competitive stores.
4. These sales per square foot values for each representative retailer was multiplied by the number of square feet projected by the developer for each space within the shopping center using the developer’s total of 266,640 square feet as the ultimate constraint on size. The weighted average of these calculations for the entire projects is \$256 per square foot, as shown below, for annual sales of about \$68.3 million when fully built out and fully operational, assuming no vacancy rates. This also assumes a portion of the in-line retail space will be occupied by service business (hair salons, nail salons, tanning salons, tax preparation, insurance, etc.) and not

generate taxable sales revenue. Again, all values are expressed in 2014 dollars. There is no adjustment that allows for inflation based on anticipated opening dates.

Table 1: Sales Assumptions for Proposed Emporia Pavilions

<i>Use</i>	<i>Space</i>	<i>Sale/SF</i>	<i>Sales</i>	<i>% Taxable*</i>	<i>Taxable Sales</i>
Home Improvement	162,340 SF	\$165	\$26,786,000	100%	\$26,786,000
Supermarket	80,000 SF	\$400	\$32,000,000	90%	\$28,800,000
Gas/Convenience	2,000 SF				
Gas Station	N/A		\$2,000,000	0%	\$0
Convenience Store	2,000 SF	\$200	\$400,000	100%	\$400,000
Coffee Drive-Thru	1,500 SF	\$500	\$750,000	100%	\$750,000
Sit-down Dining	5,400 SF	\$450	\$2,430,000	100%	\$2,430,000
Sit-down Dining	5,400 SF	\$450	\$2,430,000	100%	\$2,430,000
Small Shop Service	5,000 SF	\$125	\$625,000	0%	\$0
Small Shop Retail	5,000 SF	\$150	\$750,000	100%	\$750,000
TOTAL	266,640 SF	\$256	\$68,171,000		\$62,346,000

* EBT grocery sales would not be taxable, gasoline sales are not subject to local taxes.

This is not to say that such stores and spaces will actually perform at these values. The dollar amounts shown above are simply well-informed assumptions for a project of this sort in a location like Emporia. These values should not be relied upon by other parties as representing actual projections or expectations by or for the retailers that are intended to become part of the development. The projected sales from the Table 1, above, are for planning and analytical purposes only.

5.0 MARKET CONTEXT AND FORCES

5.1 RETAIL GAP ANALYSIS

Development Strategies utilized retail supply and demand statistics⁶ provided by the demographics and mapping firm of ESRI. The most recent estimates by ESRI indicate that Emporia retailers attract over \$333 million in annual sales (see the “Supply” column, below). At the same time, ESRI estimates that the “Demand” for retail sales, generated by Emporia residents alone, is much less at almost \$184 million per year.

Table 2: Retail Marketplace Profile: Emporia

Industry Summary	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	% of Demand From Emporia
Total Retail Trade and Food & Drink	44-45,722	\$184,358,045	\$333,232,563	(\$148,874,518)	55%
Total Retail Trade	44-45	\$165,496,075	\$294,989,322	(\$129,493,247)	56%
Total Food & Drink	722	\$18,861,970	\$38,243,241	(\$19,381,271)	49%
In-Store Retail*		\$142,681,630	\$248,087,822	(\$105,406,192)	58%

* Excludes automobile and parts sales, and "non-store" retail sales

The identified secondary trade area has more than twice the demand of Emporia (\$415 million), but 31 percent less supply (\$230 million). So, clearly the excess retail supply in Emporia is serving the surrounding rural communities of Lyon County and other adjacent counties.

The following table shows the retail gap for the entire retail trade area identified for Emporia Pavilions.

Table 3: Retail Marketplace Profile: Combined Retail Trade Area

Industry Summary	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Excess Demand % of Supply
Total Retail Trade and Food & Drink	44-45,722	\$598,945,184	\$563,218,278	\$35,726,906	6%
Total Retail Trade	44-45	\$543,732,847	\$511,738,755	\$31,994,092	6%
Total Food & Drink	722	\$55,212,336	\$51,479,523	\$3,732,813	7%
In-Store Retail*		\$459,660,811	\$410,896,318	\$48,764,493	12%

* Excludes automobile and parts sales, and "non-store" retail sales

When demand from other residents (and supply of other stores) of the trade area are considered, there remains a significant retail gap. This indicates that about six percent of trade area residents sales are occurring outside of the trade area, or “leaking” from the trade area. If the automobile and parts sectors are excluded this figure doubles to 12 percent, of about \$49 million. These are sales that could potentially be captured by more competitive retail options within Emporia. For example, a shopper in nearby Osage County could choose to shop at a new store in Emporia rather than travel to a similar store in Topeka.

6 Unless otherwise specified in this report, all references to “retail” or “retail sales” is inclusive of retail stores, restaurants, and bars. Retail incorporates North American Industrial Classification System (NAICS) codes 44 and 45 (two-digit level) while restaurants and bars incorporate NAICS code 722 (three-digit level). Retail data provided by ESRI is fairly consistent with overall retail sales data provided by the Kansas Department of Revenue. ESRI reports total retail sales of \$333 million in 2012 compared to DOR reported sales of \$358 million, a discrepancy of 7.5 percent.

Earlier, we estimated total sales for Emporia Pavilions of \$68 million. This would more than fill the existing gap within the trade area (the gap exists entirely in communities outside of Emporia), even assuming that the shopping center could recapture 100 percent of these leaking sales. With this assumption, about \$49 million of sales would be recaptured as net new sales to Emporia; however, about \$20 million of sales would be shifted from other stores within Emporia. However, this assumption is unlikely for two reasons. First, it is unlikely that an individual store or development could recapture 100 percent of leaked demand, because consumers shopping habits are long established and can be difficult to break. Further, we can expect some of the stores to adapt and become more competitive in the face of new competition. A 50 percent recapture rate will typically provide a good baseline estimate. Second, the indicated leakage is across all categories and a single store or development will typically focus on only a few spending categories. In the case of Emporia Pavilions, the two anchor stores will account for approximately 86 percent of total sales—39 percent in the home improvement category and 47 percent in the grocery category.

Restaurant and General Uses (Out-lot Parcels)

The 10 percent of sales generated by strip center retail and restaurants (\$7 million) can be readily absorbed within the trade area economy with minimal impact. The exact tenant mix is unknown, but with a mix of dining, small shops and services, it falls well within the \$49 million overall retail gap for in-store retail.

Gasoline/Convenience Store

The \$2.4 million generated by the gas/convenience store will be entirely captured from the existing supply within Emporia. This is a reasonable assumption since these purchases are almost entirely driven by convenience. It is unlikely that the new store will pull new customers from the fringes of the market area, keep Emporia residents from spending outside of Emporia, or attract additional travelers off of the interstate.

Groceries and Supermarkets

The following table looks specifically at gaps within the grocery segment of the larger trade area and Emporia.

Table 5: Retail Marketplace Profile, Grocery Stores

Combined Retail Trade Area	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Excess Demand % of Supply
Grocery Stores	4451	\$77,287,583	\$79,230,898	(\$1,943,315)	-2%
Emporia Only					
Grocery Stores	4451	\$23,690,050	\$43,495,222	(\$19,805,172)	-46%

Currently the supply and demand within the larger trade area is almost perfectly balanced with a slight surplus serving shoppers from outside the trade area. The demand for groceries within Emporia is \$24 million with total grocery supply in the city of about \$43 million. This means that 46 percent of the grocery supply within the city is supported solely by shoppers from outside of Emporia.

The addition of an 80,000 square foot supermarket would increase the trade area supply of groceries by 42 percent in an already balanced market. In Emporia alone it would increase the supply of groceries by about 73 percent. This is consistent with our findings looking at the competitive supply of existing grocers which estimated that the square footage of grocery space in Emporia would increase by 66 percent.

We conclude that a new supermarket at Emporia Pavilions would not create net new or recaptured demand for groceries within the trade area for these reasons:

1. The supply and demand for groceries is currently well balanced.
2. Groceries are convenience goods and it is unlikely that a new store could attract significant demand from shoppers outside of the trade area. Similarly, it is unlikely that Emporia residents are doing a significant amount of their grocery shopping outside of Emporia.
3. There is currently a significant surplus of supply for groceries within Emporia (44%)
4. The addition of the proposed supermarket would represent a substantial increase in the supply of groceries with Emporia and the trade area in terms of total sales (73 percent increase in Emporia) and total square footage (66 percent in Emporia)

Thus, almost all of the sales for the new supermarket would be shifted from stores within Emporia. The new store would be significantly more attractive than existing stores within Emporia and profit margins for these stores are narrow. So, we would expect one or more of the existing grocery stores in Emporia to close soon after the new supermarket opens.

Home Improvement

The following table looks specifically at gaps within the home improvement related segments of the larger trade area and Emporia. We have subtotaled three retail sectors as home improvement. Home furnishings would include carpeting, window coverings and other “soft” home improvement items, but excludes furniture which is not a major component of home improvement store sales. Electronics and Appliances would include televisions, stereos, and computers, as well as appliances such as refrigerators, dishwashers, washers, and dryers.

Table 4: Retail Marketplace Profile, Home Improvement

		Demand (Retail Potential)	Supply (Retail Sales)	Excess Demand Retail Gap	% of Supply
Combined Retail Trade Area					
Home Furnishings Stores	4422	\$3,937,896	\$2,508,035	\$1,429,861	57%
Electronics & Appliance Stores	4431	\$14,161,149	\$3,664,715	\$10,496,434	286%
Bldg Materials, Garden Equip. & Supply Stores	444	\$20,429,046	\$19,102,769	\$1,326,277	7%
Home Improvement		\$38,528,091	\$25,275,519	\$13,252,572	52%
Emporia Only					
Home Furnishings Stores	4422	\$1,295,597	\$1,740,242	(\$444,645)	-26%
Electronics & Appliance Stores	4431	\$4,619,363	\$2,832,046	\$1,787,317	63%
Bldg Materials, Garden Equip. & Supply Stores	444	\$5,207,504	\$9,421,570	(\$4,214,066)	-45%
Home Improvement		\$11,122,464	\$13,993,858	(\$2,871,394)	-21%

Currently, there is a large gap of about \$13 million in the combined home improvement sectors in the larger trade area. This gap alone would support almost half of the estimated sales of a new home improvement store if it could recapture 100 percent of this demand leakage. About 80 percent of that gap is in the electronics and appliance store sectors, a large portion of which would not be served by the store (televisions, home theater, computers, etc.). Emporia and the trade area lacks a large electronics store such as Best Buy or H.H. Gregg, so almost any major electronics purchase would need to occur outside of the trade area. If we assume that half of the retail gap in this retail sector is for electronics (which may be conservative), then the remaining gap drops to \$8 million. This gap would support about 30 percent of the new store's sales at a 100 percent capture rate.

Unlike the grocery sector the demand for home improvement items is not driven by convenience. Instead, cost, variety, quality, and service are significant demand drivers and shoppers would be willing to travel further for a more attractive home improvement store. This is supported by our discussion with Emporia residents who suggested that it is common for city residents to travel to nearby larger markets to shop at store such as Menards, Lowes, and Home Depot, none of which have locations in the trade area. While local options in this sector are serviceable, they are not generally preferred by shoppers. Thus, a new home improvement store could capture new demand within the trade area in three ways that are not fully considered by the gap analysis⁷:

1. Given the lack of directly competitive stores in the trade area, the new store could capture a very large portion of the existing gap.
2. The new store could recapture demand that is leaking to stores outside of the trade area from shoppers in Emporia and surrounding communities. Creating a more competitive environment would not only eliminate the demand gap, but could support an increasingly large surplus for Emporia and the trade area.
3. Creating a more competitive environment could also be seen as a "defensive move" against continued decreases in the city and county's Pull Factor. In other words, if the retail environment is not improved Emporia could see continued and accelerating increases in leakage. This would be especially true if competitive cities continue to improve their retail environments.

With the limitations of the gap analysis for determination of sales transfer in the home improvement sector, we have looked at additional data from other cities with recently opened large home improvement stores to estimate the amount of net new and recaptured sales generated by a new nationally branded home improvement store compared to the amount of sales that will shift from existing stores within Emporia.

⁷ Increasing the size of the trade area is not considered an option, since our trade area analysis already assumes a new and competitive home improvement store is developed at Emporia Pavilions.

5.2 COMPARABLE CITIES WITH NEW HOME IMPROVEMENT STORES

We have looked at comparable cities in both Kansas and Missouri that have had new large home improvement stores open in the past five years to see if their experience could provide insight into what Emporia might expect with the opening of a similar new store. In most cases, these recently opened stores are Menards due to its recent expansion into the Midwest. Cities in Missouri were selected because the state includes similar small and medium sized cities in otherwise rural out-state settings, and the state department of revenue provides easily accessible data on local retail sales similar to the state of Kansas. The cities selected were Salina and Garden City, Kansas and Cape Girardeau, Sedalia, and Jefferson City, Missouri. These cities ranged in size from about 21,500 people to 48,000 people. And each is at least 45 minutes away from other major cities or metropolitan areas. Garden City is particularly isolated with the nearest large city (Wichita) located almost three hours away.

Generally, community development directors and/or chamber of commerce officials have seen the entry of large home improvement store into their cities as a positive development.

Salina saw the most direct and immediate impact from the opening of a Menards in April 2011. After just four months the nearby Sutherlands closed in August. The store remained vacant for about two years before Dick's Sporting Goods opened in the space in late 2013. A hotel and gas/convenience store are being developed adjacent to the site due largely to the proximity to the nearby Interstate 135 interchange.

Sedalia, Missouri had a Menards store open in March 2011. Shortly afterward two local lumber yards closed. John Simmons, the city's community development director, speculated that the owners were nearing retirement, but the new competition likely made such decisions easier. The city also has a Sutherlands and Lowes, and both are still operating. He indicated that foot traffic at Sutherlands has visibly decreased, but he has not noticed any impact at the Lowes store. Sedalia is the smallest city surveyed with a population of 21,500.

Kaleb Kentner, the community development director of Garden City, indicated that a new Menards opened in June 2013 and the city has an existing Home Depot located less than a mile to the north. There have been no resulting store closures and no noticeable impact on existing businesses. No new businesses have been developed or planned in close proximity to the new store. Sales tax receipts for the city have seen strong increases over the past eight years due to new retail development and they continue to rise. He noted that the city benefits greatly from its location and serves as the commercial center for a very large area of rural Kansas and Colorado. The city has significantly higher incomes and has seen stronger population and income growth over the past several years.

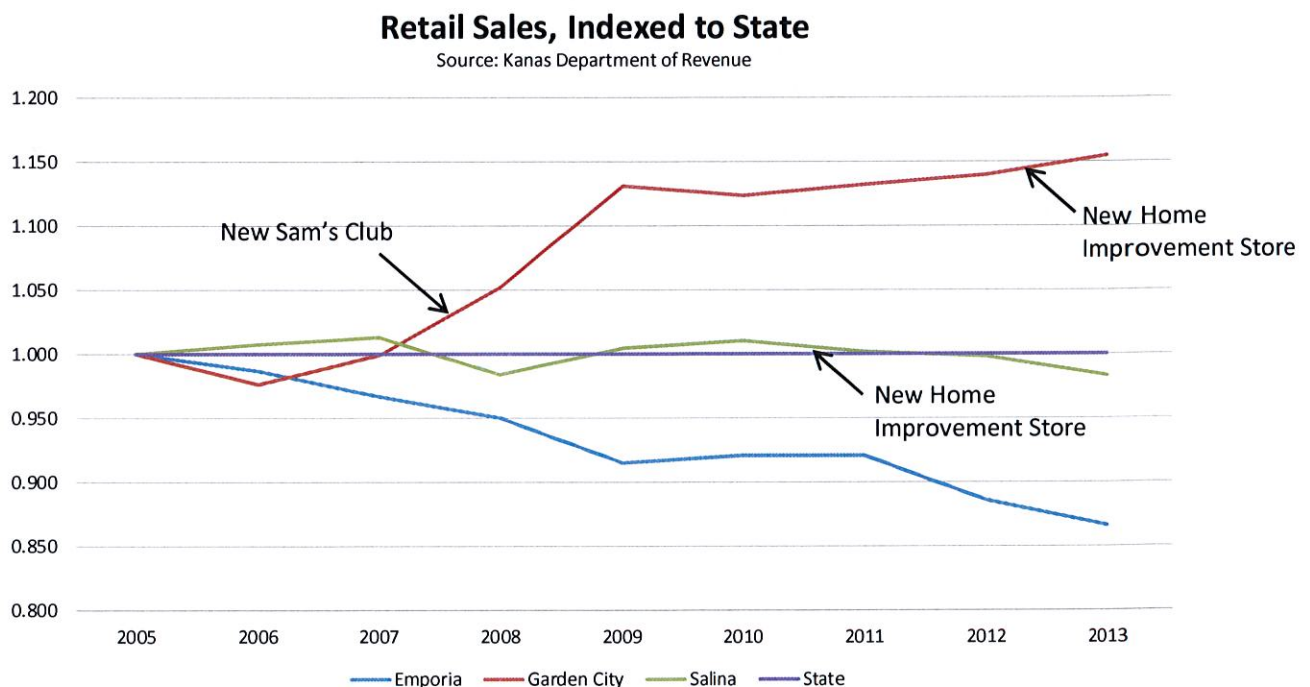
Overall, local officials have a positive view of the entry of new large home improvement stores into the market. It provides a new more attractive and convenient option for local shoppers. Cities with existing nationally branded home improvement stores have not seen any closures or visible reductions in foot traffic. However, in some cases local or regional competitors have closed or seen noticeable reductions in traffic. None of the cities have seen significant development of new retail businesses adjacent to the new stores.

6.0 SALES TRANSFER ANALYSIS

6.1 COMPARABLE CITIES RETAIL SALES ANALYSIS

Local officials can provide anecdotal and qualitative assessments of the impact of a new large home improvement store in the community, but we have also looked at local retail sales to provide a quantitative measure of its impact. We would expect a new large store entering a local retail market to have a noticeable impact on overall retail sales of the city, in other words “move the needle” or “bump” sales to a new level. The impact of new smaller stores could fade into the background, but these stores can be a major addition to the retail supply of these smaller cities. When opened, the new store in Garden City accounted for about 4.9 percent of total retail sales, in Salina 3.0 percent. Similarly, the new home improvement stores in the three Missouri cities accounted for about three to six percent of sales. In Emporia, a new store would account for about 7.4 percent of all retail sales (the entire development would account for about 19 percent of all Emporia retail sales).

The following graph shows retail sales for Emporia, Garden City, and Salina indexed to overall retail sales for the state. The state establishes a straight line expectation of sales increase for comparison. So if state sales increased 5.0 percent year over year, a similar increase for a city would generate a flat line, a 3.0 percent increase would show a declining line (lagging expectations set by the state), and a 7.0 percent increase would generate an increasing line (exceeding expectations).



The graph illustrates a few points:

- Compared to the state, sales in Emporia continue to decline. This is evidence of the lack of competitiveness of the local retail market
- Salina saw no significant impact from its new home improvement store, sales kept even with and eventually lagged the state baseline
- Garden City saw a slight positive impact from its new store, but given the larger percentage of sales the store represents we would expect to see a larger increase.
- The impact of the new Sam's Club opening in 2008 is clearly visible with about a 14 percent increase over the state baseline from 2007 to 2009. During this period sale growth doubled from the previous two-year period (annual growth increased from 4.3 percent to 8.1 percent). At the time, the sales would have accounted for 15 percent of total retail sales in Garden City.

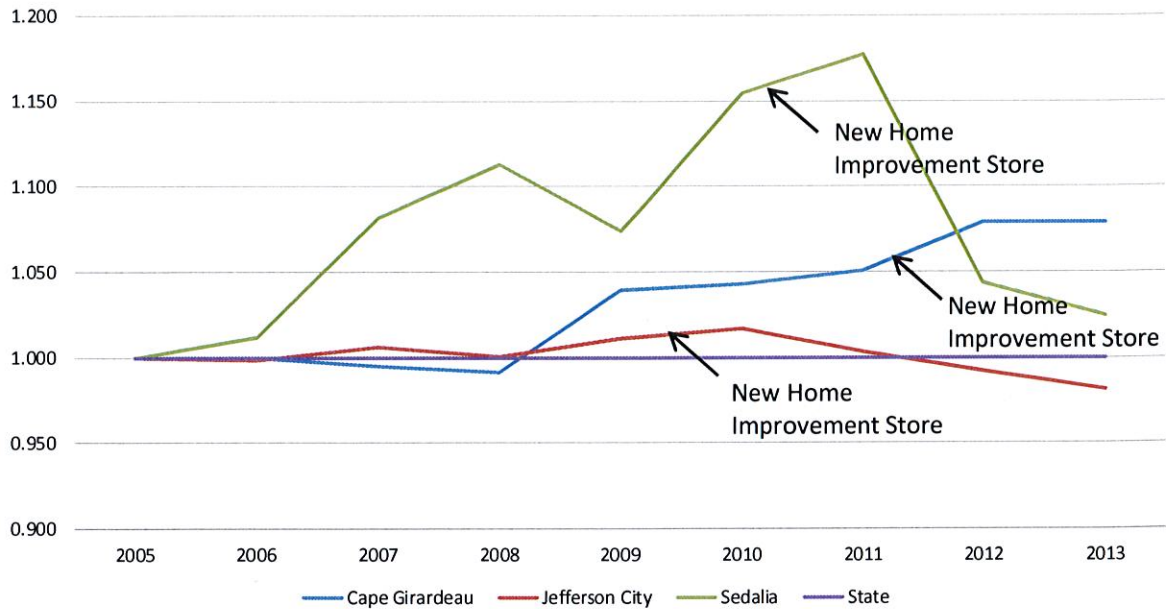
The Sam's "bump" in sales is the profile we would expect for a major retail addition to a small city that creates a significant amount of net new sales (recapture of demand gap). If we assumed city sales would have continued to rise at the "pre-Sam's" rate and compare it to actual sales the difference is about \$60 million or about 92 percent of a typical annual sales of a Sam's Club. But, the closest Sam's Clubs are over three hours away in Wichita and Colorado Springs, so the store was very well positioned to recapture demand from a very large area.

If the new home improvement store in Emporia was fully supported by net new or recaptured sales we would expect to see a similar and noticeable bump in indexed retail sales. But in the case of Salina no bump occurred, and Garden City saw only a minor increase.

The following graph shows a similar profile of the cities in Missouri with new large home improvement stores indexed to retail growth in the state of Missouri.

Retail Sales, Indexed to State

Source: Missouri Department of Revenue



In this case, all three cities saw slight bumps in sales occur shortly after the new stores opened, but the level of sales was only maintained in Cape Girardeau.

In the following table and graph pre-recession and post-recession growth rates are compared to the post-store-opening growth rate of sales in four cities. We have looked at second half sales (July-December), because in all cases the stores opened in the first half of the year. We have excluded Garden City, since there was not enough post-opening data available for comparison. Another data point was included for comparison. An expected retail sales growth rate was determined based on post-recession changes in population and income (US Census, 2010 to 2012) and projected increases through 2017 (ESRI). The assumption being that retail sales growth should be consistent with the increase in gross income (population x per capita income = gross income). If net new sales or recaptures sales are generated, the growth in retail sales should exceed expected growth.

Table 6: Second Half Year-to-Year Sales Sales Increases

	<i>Pre-Recession Growth¹</i>	<i>Post-Recession Growth²</i>	<i>Home Improvement Store Open</i>	<i>Post-Opening Growth³</i>	<i>Expected Growth⁴</i>
Salina	4.49%	3.28%	May-11	3.11%	1.95%
Kansas	4.54%	7.40%		4.74%	2.65%
Cape Girardeau	2.18%	3.13%	May-12	0.27%	3.11%
Jefferson City	3.54%	1.10%	May-10	1.10%	2.29%
Sedalia	8.66%	-1.54%	Mar-11	-3.93%	0.99%
Missouri	2.64%	2.47%		1.61%	2.33%

¹ Kansas pre-recession period is 2005-2008, Missouri pre-recession period is 2005-2007

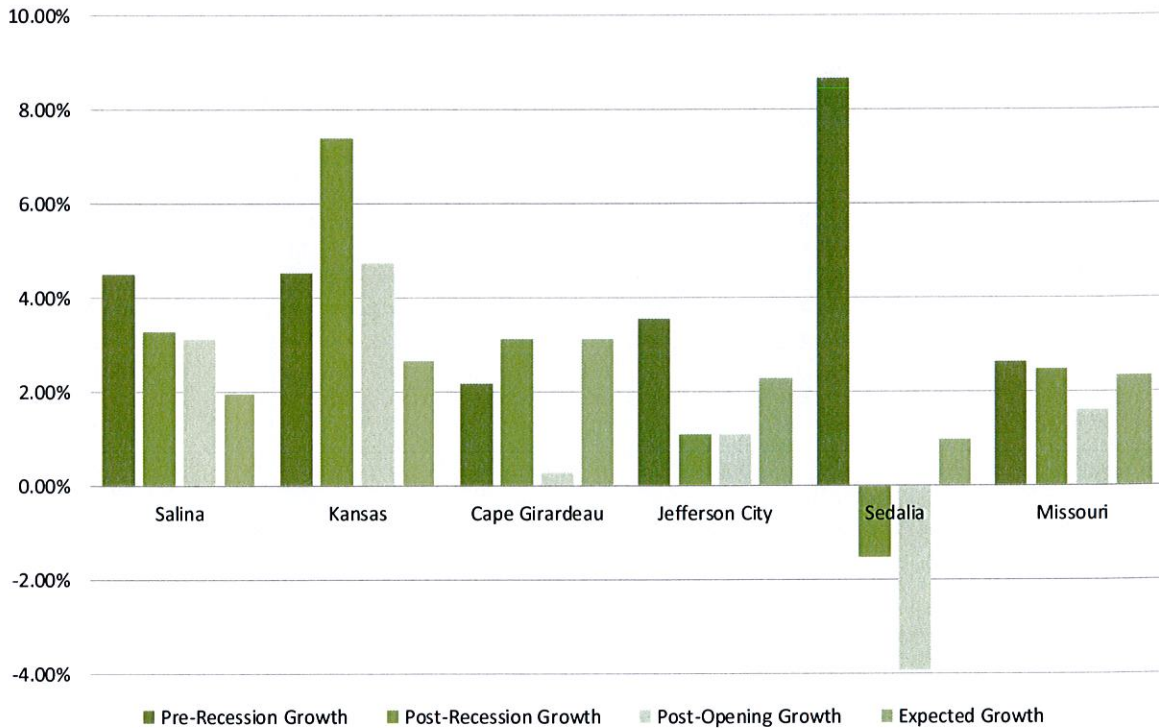
² Both states post-recession period is 2010-2013

³ For Missouri 2011-2013 was used as the post-store opening period. 2012-2013 change was 2.38%

⁴ Based on post-recession and projected changes in population and income

Second Half Year-to-Year Sales Increases

Sources: DS, US Census, ESRI, MO & KS DOR



In each case post-opening sales growth lagged or met, and never exceed pre-recession or post-recession sales growth. Post-opening growth in each city also lagged overall retail growth in the associated state. Only in Salina did post-opening growth exceed our expectation of retail sales growth based increases in gross income. In this case the difference between the expected retail sales and actual retail sales was about \$32 million, slightly higher the total expected sales for a new large home improvement store.

Our analysis of retail sales in cities with recently opened large home improvement stores suggests that the new store does not have a dramatic impact on overall retail sales within the city, and significantly less than suggested by the total anticipated sales of such a store. Cities generally saw minor bumps in sales immediately after the stores opened, but in most cases these bumps were not sustained for even a short period. In each case, post-opening sales growth lagged both pre-recession and post-recession sales growth. And, sales growth in each city lagged state sales growth in the post-opening period. Sales growth only beat our estimate of expected sale growth in one city, Salina.

The noticeable sales bump in Garden City after the opening of Sam's Club in 2008 represents a best-case scenario, with 92 percent of sales supported by net new or recaptured demand. But in this case the store was truly unique in the city and no similar store was located within three hours of the city. A worst-case scenario is that there is no net new or recaptured sales attracted to support the sales of the new store. In the case of Salina, Sedalia and Jefferson City, post-opening sales fail to keep pace with increases in the state. Salina presents a mixed conclusion because while lagging behind state growth, it beats expected growth based on increases in gross income.

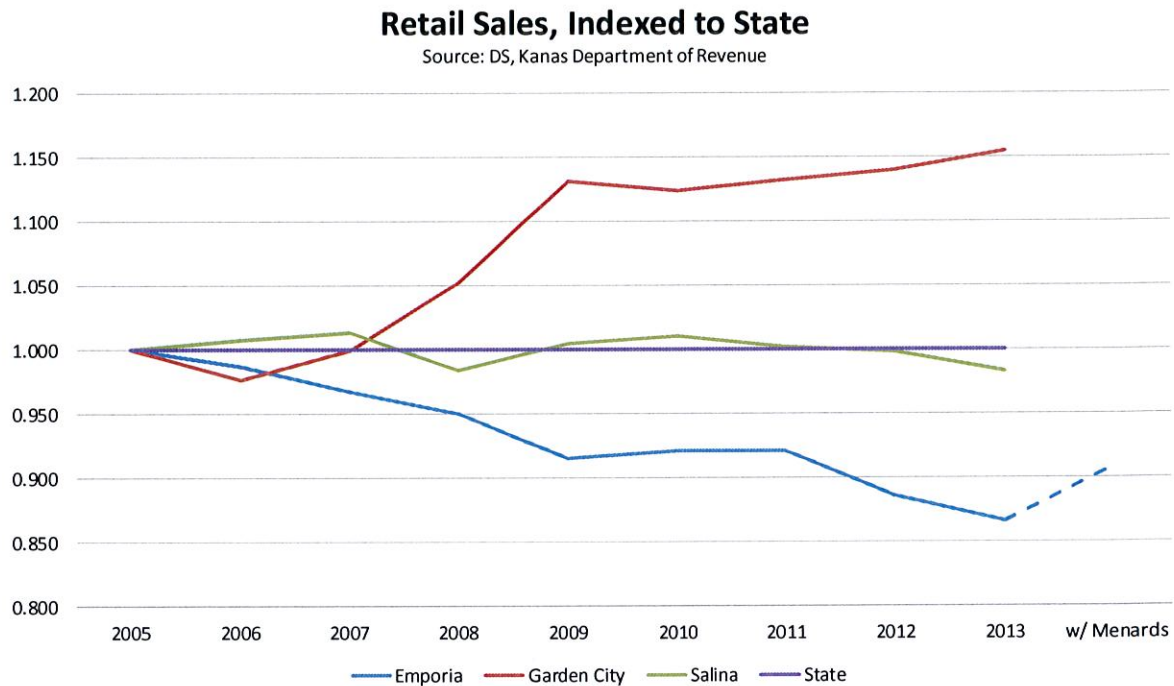
Given the evidence presented by on-the-ground participants in these cities and sales tax data, we suspect the impact of a new home improvement store in Emporia will fall somewhere in between.

6.2 CONCLUSION OF SALES TRANSFER

Earlier in the report we estimated that a new home improvement store would generate sales of \$26.8 million. The gap analysis suggests there is a gap of about \$13 million in the combined home improvement sectors that are available for recapture. A 50 percent capture rate of those available sales is reasonable considering that a large portion of the gap is in the electronics and appliance category which is not fully covered by product offerings at a home improvement store. This brings the total net new or recaptured sales to \$6.6 million. Over the next five years, growth in gross income within the trade area will increase demand for home furnishings by \$3.7 million, or 1.9 percent per year. This growth is modest and lags increases in both the state and nation, and barely exceeds the current rate of inflation (1.5 percent). Thus, we do not consider this additional demand capturable by the project. The remaining \$20.2 million of sales would be transferred from within trade area. However, a portion of those transferred sales would be occurring outside of Emporia. Forty-five percent of trade area retail supply for home improvement is located outside of Emporia, thus another \$9.0 million ($\20.2×0.45) could be recaptured to Emporia from elsewhere in the trade area. This results in total net new and recaptured sales of \$15.6 million, or about 58 percent of total demand needed to support a new nationally branded home improvement store. The remaining 42 percent of sales or \$11.2 million would be transferred from other store located within Emporia.

Officials in other cities saw the closure of a Sutherlands (Salina), the closure of two lumber stores (Sedalia), and visibly reduced traffic at another Sutherlands (Sedalia). The largest competitor in Emporia would be very vulnerable to the new home improvement store. If we assume its closure or a similar loss of sales spread across multiple competitors that loss would equal about \$13.7 million, compared to the estimated \$11.12 million of sales transferred from other stores in Emporia.

The following graph recreates our illustration of retail sales indexed to the state, but adds an additional post-development period to illustrate what the impact of net new and recaptured sales for a home improvement store could look like for Emporia.

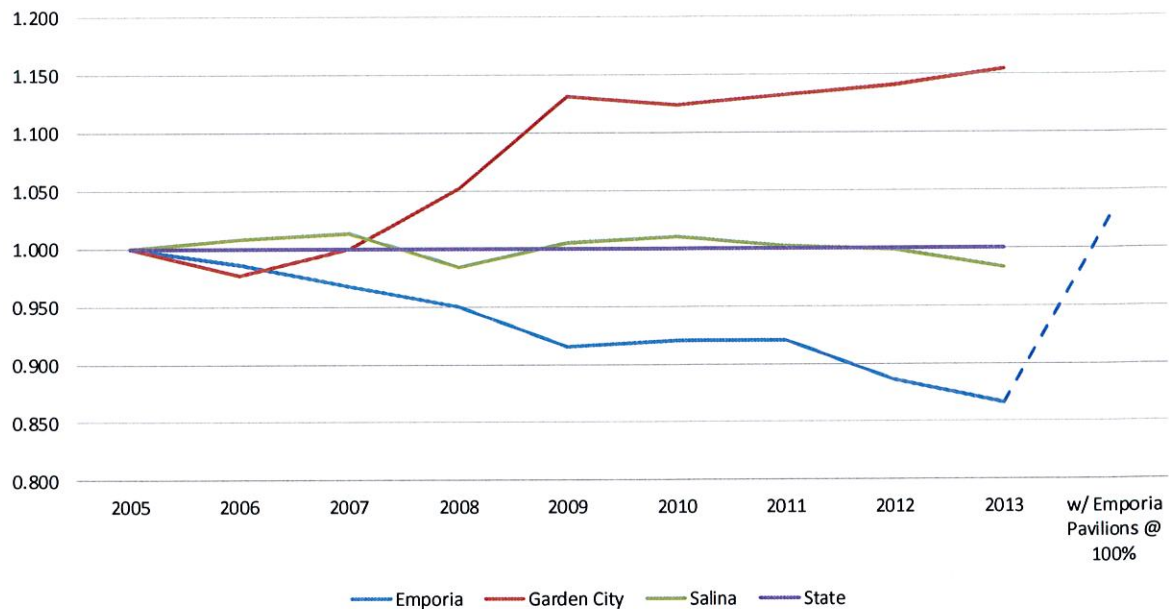


The impact would almost return indexed sales to the city's 2011 level, and also approached the impact of the new Sam's Club in Garden City. Thus, our estimate falls within the reasonable boundaries indicated by the best case and worst case scenarios concluded through our research.

If the entirety of Emporia Pavilions retail sales (\$68.3 million) was determined to be net new or recaptured to Emporia the same graph would look like the following.

Retail Sales, Indexed to State

Source: DS, Kansas Department of Revenue

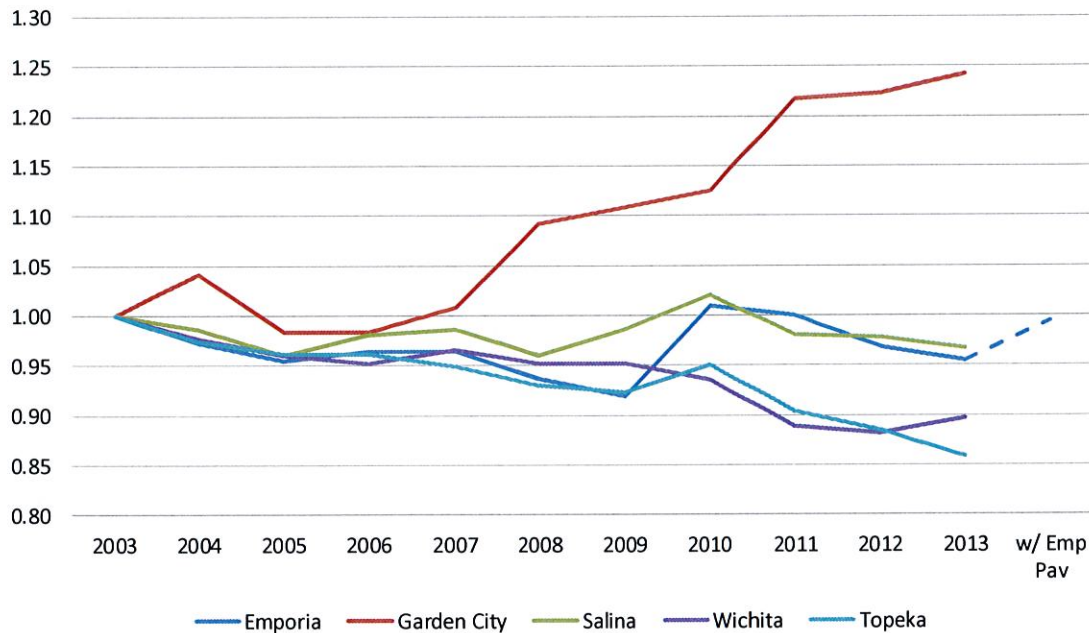


That scenario is highly unlikely and the graph shows that such a conclusion would be unreasonable.

Our concluded sales recapture and transfer rate supports a reasonable improvement in the competitiveness of Emporia, suggesting an increase in pull factor from 1.06 in 2013 to about 1.11 after the completion of Emporia Pavilions. By comparison Garden City increased its pull factor from 1.21 to 1.33 with the addition of its Sam's Club in 2008. This projected change in Pull Factor is illustrated in the following graph.

Indexed Pull Factor, 2003-2013

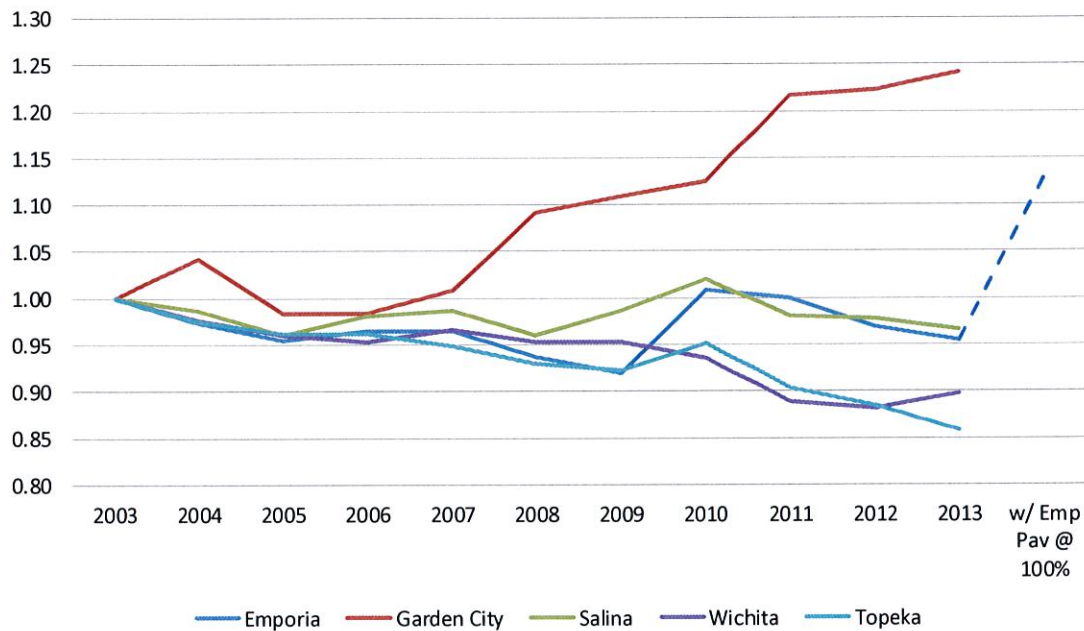
Source: DS, Kansas Department of Revenue



If the entirety of Emporia Pavilions retail sales (\$68.3 million) was determined to be net new or recaptured to Emporia the same graph would look like the following.

Indexed Pull Factor, 2003-2013

Source: DS, Kansas Department of Revenue



That scenario is highly unlikely and the graph shows that such a conclusion would be unreasonable.

The following table summarizes our estimate of net new and recaptured sales to Emporia and sales transferred from within Emporia due to the development of Emporia Pavilions.

Table 7: Sales Transfer Conclusions for Proposed Emporia Pavilions

Use	Space	Sale/SF	Sales	Recaptured Sales	Transferred from within Emporia	Net New or Recaptured Sales	Transferred from within Emporia	% Taxable	Taxable Net New or Recaptured Sales
Home Improvement	162,340 SF	\$165	\$26,786,000	58%	42%	\$15,625,000	\$11,161,000	100%	\$15,625,000
Supermarket	80,000 SF	\$400	\$32,000,000	0%	100%	\$0	\$32,000,000	90%	\$0
Gas/Convenience	2,000 SF								\$0
Gas Station	N/A		\$2,000,000	0%	100%	\$0	\$2,000,000	0%	\$0
Convenience Store	2,000 SF	\$200	\$400,000	0%	100%	\$0	\$400,000	100%	\$0
Coffee Drive-Thru	1,500 SF	\$500	\$750,000	100%	0%	\$750,000	\$0	100%	\$750,000
Sit-down Dining	5,400 SF	\$450	\$2,430,000	100%	0%	\$2,430,000	\$0	100%	\$2,430,000
Sit-down Dining	5,400 SF	\$450	\$2,430,000	100%	0%	\$2,430,000	\$0	100%	\$2,430,000
Small Shop Service	5,000 SF	\$150	\$750,000	100%	0%	\$750,000	\$0	0%	\$0
Small Shop Retail	5,000 SF	\$150	\$750,000	100%	0%	\$750,000	\$0	100%	\$750,000
TOTAL	266,640 SF	\$256	\$68,296,000	33%	67%	\$22,735,000	\$45,561,000		\$21,985,000

Due in part to stagnant growth, small size and aging retail infrastructure, Emporia competitiveness within the region is slowly declining and the city is losing sales to larger and more competitive cities in eastern and central Kansas. Emporia Pavilions would increase the overall competitiveness of Emporia's retail environment and provide shopping options that are desired by most residents. As a result, residents would keep more of their shopping dollars within the city and the city could attract more shoppers from within the trade area.

We conclude that the development would generate \$22.7 million in net new and recaptured sales to the city, but at the same time transfer \$45.6 million in sales from existing businesses within Emporia. The transfer of sales is due in large part to the proposed supermarket which would significantly increase the supply of groceries in the trade area which is already very well balanced. Of the net new and recaptured sales, about 97 percent, or \$22 million will be subject to local sales taxes.

If the supermarket and gas/convenience store were excluded from the project the recaptured sales would represent 67 percent of total sales with 33 percent of sales transferred from within Emporia.

The transferred sales support roughly 178,000 square feet of retail space. By comparison the closest competitors in the home improvement and grocery sectors occupy about 145,000 square feet of space. The new development will not necessarily result in the vacancy of this space, since reduced sales at some stores will not directly result in its closure. The experience of similar cities in Missouri and Kansas has seen a few closures, but strong competitors remain, some other stores have upgraded to remain competitive, and some vacant stores have been filled with attractive uses. Officials have been very happy with the entry of new, more attractive retail development to their cities.

Emporia is in need of new and more attractive retail development to remain competitive in the region, but we anticipate that some local business will be directly impacted.

APPENDIX A

Home Improvement Stores

Sutherlands Lumber Company is a regional chain of home improvement store that carries a wide range of home improvement items, hardware, garden supplies, lumber, and appliances. However, it lacks the size, variety and marketing of larger competitors such as Home Depot, Lowes, and Menards. As such the stores will typically operate in smaller cities. The local store is about 91,500 square feet in size and is located just about a half mile south of the Emporia Pavilions site adjacent to the FlintHills Mall. We estimate annual sales of \$13.7 million or half of the estimated sale potential for a new home improvement store. It is important to note that when a new Menard's opened in Salina in 2011, a nearby Sutherlands closed within four months.



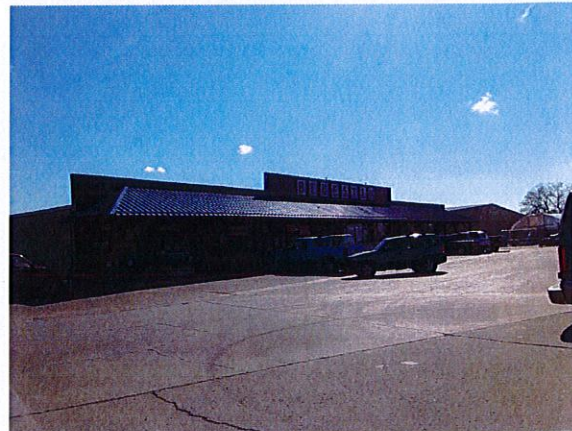
Waters True Value is a more traditional mid-size hardware store at about 22,500 square feet. It includes hardware and garden supplies, but lacks a full lumber yard, appliances, and other large home improvement items. It is located about three miles from the subject on Sixth Street. True Value stores can often successfully coexist with larger competitors by offering convenience and superior customer service. Furthermore, the distance from the proposed home improvement store will buffer the store from direct competition.



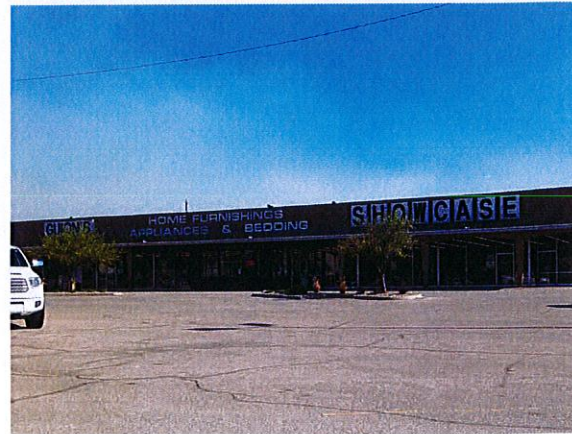
Mark II Lumber is a traditional lumber yard that mainly serves contractors. It offers a limited supply of home improvement items, but would directly compete with a lumber yard included as part of a new home improvement store. It is located about four miles away on the opposite edge of town. Its location, specific expertise in lumber, and established business relationships should buffer the store from direct competition. But a city official in Sedalia, Missouri, where a new Menards opened in March 2011, noted that two lumber yards closed shortly after the new store opened.



Bluestem Farm and Ranch is a unique store that caters specifically to the needs of farmers and ranchers. It offers an incredible variety and selection of items in its 65,000 square foot store. The business has operated in Emporia for many decades and is a unique draw to the city. Some local officials equated it with a tourist attraction. The store is located about 1.5 miles south of Emporia Pavilions. Although there is some overlap in home improvement offerings, the store has a unique and long-established focus on the needs of farmers and ranchers with a wide variety of products and customer service not available elsewhere. It will not compete directly with a big box home improvement store, and should not see any direct impact from its opening.



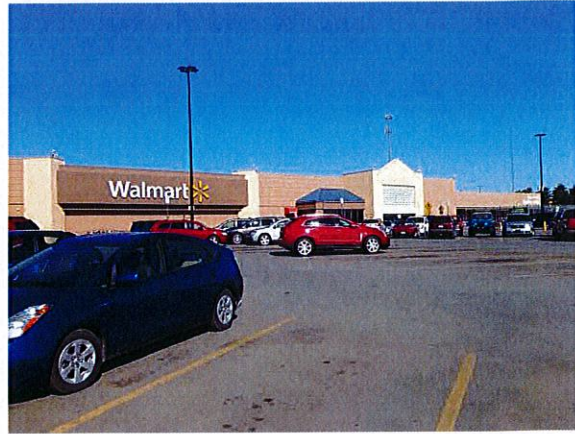
Guion's Showcase is an appliance and home furnishing store located on the Sixth Street commercial corridor about two miles south of the subject. The store includes large appliances, furniture and mattresses in its 45,000 square foot show room. While the store will not compete directly with a big box home improvement store, there would likely be competition in the area of large appliances, such as refrigerators, dishwashers, washer and dryers. Competition from other stores within Emporia is limited. In this case there could be some synergies between the two stores if a new home improvement store keeps more shoppers in Emporia for home improvement and comparison appliance shopping, rather than going to larger markets to seek a wider variety of options.



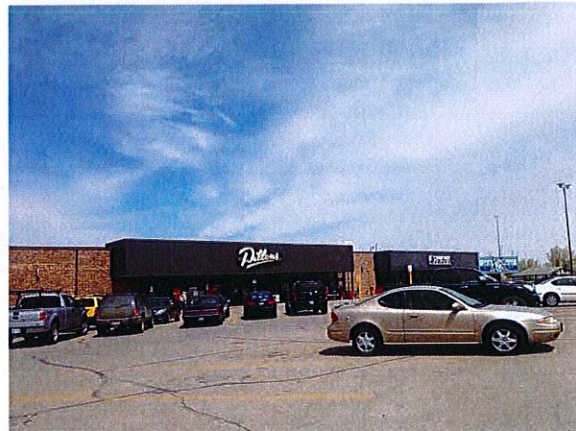
APPENDIX B

Grocery Stores and Supermarkets

Walmart includes a large grocery department that does serve as a regular grocery option for many residents as well as a convenient option for those that do other shopping within the store. The Walmart has been in this location for over 30 years, but expanded by about 68,000 feet in 2000 to include a large grocery section. Given the proximity to Emporia Pavilions it is possible that the grocery department could see a negative impact, but the store overall would likely benefit from the increased traffic generated by the proposed development. Several people mentioned that the nearby Food 4 Less closed soon after Walmart expanded with a grocery section. A nearby Dillons grocery store closed five years later, and was replaced with an Aldi. Dillions maintains a store on the east side of town.



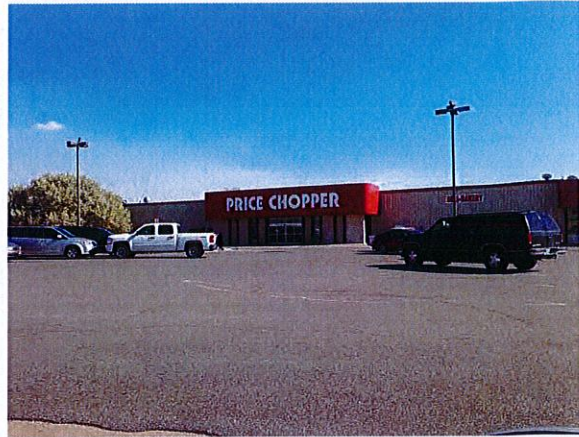
Dillon's is a regional grocery chain that serves Emporia with an older 25,000 square foot store on the east side of the city, about three miles west of the proposed development site. The store is maintained in good condition, but the surrounding area lacks additional retail development that would support more convenient chained shopping trips.



Aldi is a national chain of discount grocer that sells mainly private label products. The local store is about 12,500 square feet in size and located almost a mile south of the proposed development site in the Emporia West Plaza shopping center. Given its focus on discount groceries, the Aldi is not likely to be directly impacted by a new larger supermarket.



Price Chopper is a regional grocery chain that serves Emporia with an older 30,000 square foot store on Sixth Street, about two miles south of the proposed development site. The store is visibly aged and in only average condition. Given its condition and location it would compete directly with the new supermarket, and would be vulnerable to the new competition.



Country Mart (North and South) is a local grocery chain with two stores, one each on the north side and south side of Emporia's Downtown, less than a mile apart. Both are about 25,000 square feet in size and in above average condition. The north store is located about a block south of Emporia State University and is very convenient for the university students. The south store serves a portion of the city located south of railroad tracks with somewhat limited access to other portions of the city. Both stores are about 2.5 miles from the proposed development site and significantly more convenient to neighborhood residents than the proposed supermarket which could help insulate these stores from a significant impact on sales. Nonetheless some local residents indicated that one of the stores may be in trouble with shelves not being fully stocked and slow turnover of products.

